

Approved as Written: 2/20/02

**CITY OF MORGAN HILL
SPECIAL AND REGULAR CITY COUNCIL AND
SPECIAL REDEVELOPMENT AGENCY MEETING
MINUTES - JANUARY 30, 2002**

CALL TO ORDER

Mayor/Chairman Kennedy called the meeting to order at 5:07 p.m.

ROLL CALL ATTENDANCE

Present: Council/Agency Members Carr, Chang, Sellers, Tate and Mayor Kennedy

DECLARATION OF POSTING OF AGENDA

City Clerk/Agency Secretary Torrez certified that the meeting's agenda was duly noticed and posted in accordance with Government Code 54954.2

CONSENT CALENDAR

Action: *On a motion by Council/Agency Member Tate and seconded by Council/Agency Member Sellers, the City Council/Agency Commission unanimously (5-0) **Approved** Consent Calendar Items 1-3 as follows:*

1. **JOINT SPECIAL CITY COUNCIL, SPECIAL PLANNING COMMISSION AND SPECIAL ARCHITECTURAL REVIEW BOARD MEETING MINUTES OF JANUARY 15, 2002**

Action: ***Approved** the Minutes as amended.*

2. **JOINT SPECIAL CITY COUNCIL AND SPECIAL REDEVELOPMENT AGENCY MEETING MINUTES OF JANUARY 16, 2002**

Action: ***Approved** the Minutes as written.*

3. **JOINT SPECIAL AND REGULAR CITY COUNCIL AND SPECIAL REDEVELOPMENT AGENCY MEETING MINUTES OF JANUARY 16, 2002**

Action: ***Approved** the Minutes as written.*

WORKSHOP

4. **WORKSHOP ON REDEVELOPMENT AGENCY BUDGET AND PRIORITIES**

City Manager/Executive Director Tewes presented the workshop outline, indicating that the purpose of the work session was to establish priorities for how to spend \$147 million of Redevelopment

Agency (RDA) funds (new funds). He indicated that the \$147 million can only be spent for redevelopment purposes, noting that the Redevelopment Plan outlines what those redevelopment purposes are. He said that the City Council has an adopted General Plan, adopted Parks & Recreation Master Plan and that in a few months, the City Council would be seeing the updated Sewer, Water and Flood Control Master Plan. He indicated that the City has just begun work on the Downtown Plan.

Council/Agency Member Tate inquired whether the exercise that the Council/Agency would be doing assumes that operating and maintenance costs are included in the prioritization process. Mr. Tewes responded that staff would include this as part of their presentation, and that in some instances, they have a good idea of what the operating costs would be as studies have been conducted. In other cases, staff is updating the studies and does not know the answers to the operating costs for some of the public facilities. He said that staff is in various stages of understanding the magnitude of the operating and maintenance costs.

City Manager/Executive Director Tewes informed the City Council that the packets distributed this evening contained the following: Redevelopment Plan Amendment Referendum, Measure D, Advisory Measure C, and the adopted Five Year Capital Improvement Program (CIP). He said that the City has 12 different projects in various stages of approval and review. He indicated that the City/Redevelopment Agency has decided to acquire two pieces of lands that are installment purchases or leases and that the City is committed to making payments for the next three years. In the material to be presented, it is assumed that the City is committed and locked in to do these things. Beyond this, staff is using the adopted CIP for the numbers to be used. He said that \$7.7 million is the amount that has been budgeted to build a new community recreation center, with some council/agency members stating that this is not enough funding. In terms of the analysis provided, he said that staff has stuck with what the City Council/Agency Commission has already adopted through contracts.

Mr. Tewes said that Measures C and D are included in the Council/Agency's packets which contain arguments and rebuttals. He said that the project list is exhaustive, and that the City Council/Agency have the opportunity to make decisions within the \$147 million as long as it meets redevelopment purposes. He indicated that this is not an accounting workshop but a priority setting workshop. Therefore, staff would not be going into a lot of detail about how you get to the \$147 million as it is complex because there are pass through agreements, and the city has a responsibility to set aside certain amounts for this. He said that the adopted Five Year CIP suggests that the City would be spending money on projects faster than it would be taking it in on an annual basis. He indicated that over time the City would be able to collect \$147 million. He said that a short term cash gap can be financed, noting that the City Council has indicated a willingness to proceed with short borrowing. He requested that the City Council identify which projects it wants to finance, how much funds are to be allocated and the timing of the projects. Once this is done, staff would return to the City Council with a financing plan on how to accomplish the Council's priorities.

The City Council/Agency Commission conducted an exercise to begin setting priorities of allocating Redevelopment Agency monies. Each Council Member was given \$147 million in Morgan Hill Cash.

Finance Director Dilles stated that he needs to divert some funds from the \$147 million to cover RDA administrative costs (\$13 million from each Agency Member over the remaining life of the project, including the cost of the County collecting the RDA monies for the City).

City Manager/Executive Director indicated that it would be a good idea to start with Housing as there is a minimum allocation of \$31+ million for housing (20% of the gross which includes pass through to other agencies).

Department heads explained their respective projects as follow:

Housing

Director of Business Assistance Housing Services Toy indicated that it is anticipated that \$31 million would be needed for housing activities and that this amount would include administrative costs. Programs to be paid from this amount would include, housing rehab, major rehabs, new projects, police officer housing assistance program, new teacher housing assistance program, land banking and any housing programs that the Agency would like to consider in the future. He informed the Agency Commission that in approximately 30 days, staff would return with an overall housing strategy regarding the types of programs that should be looked at and how the funds should be used.

Community Center

Director of Community Development Bischoff informed the Agency that a 21,000 square foot community center is under construction and another 11,000 square feet for Gavilan College. This facility would include large multi purpose rooms, other large rooms, a dance exercise room, an amphitheater, etc. He indicated that the cost for the project was at \$13.5 million. He stated that in 1998, EAE performed an operating cost revenue study for the City, noting that the study suggests that a few years after beginning the operation of the center, the City would break even or that the revenues would exceed all costs. He indicated that Sports Management is updating the study, trying to refine the information. It is expected that the community center would open in the fall 2002.

Community Playhouse

Director of Business Assistance and Housing Services Toy indicated that the budget for the playhouse is \$2.3 million. He said that the architect is in the process of working with their consultants to finalize the construction estimates. Therefore, it was premature to discuss possible additions because the architect is working on numbers. He said that there is a possibility that the

numbers may come out better than anticipated and that the funds could be used for theater upgrades. However, if the numbers are slightly higher, additional funding may be necessary. Staff would be returning to the Agency/City Council for award of the bid, final design, and final budget numbers in February with project completion anticipated in fall 2002. He indicated that the Sports Management Group is preparing an operation and management plan and revenue projections for the playhouse. Also, staff is under negotiations with South Valley Civic Theater as the primary operator of the facility. Staff is waiting for the revenue estimates to determine how much the City would need to charge South Valley Civic Theater to operate the facility.

Library

Recreation Manager Spier presented the library site conceptual plan of a 40,000 square foot library building. The City has a partnership with the School District and is in the process of completing the MOUs in order to have a joint component for this project. She said that initially, this project was funded at approximately \$15 million but indicated that the estimated project cost is at \$17 million. She said that staff is being aggressive about going after potential bond money with a 65% match of approximately \$11.2 million, with the City's match at \$6 million. She addressed site and infrastructure improvements to be completed.

In response to Council/Agency Member Carr's question, Ms. Spier indicated that funding does not include the purchase of land by the RDA from the City. Purchase of the land would need to include an additional \$1.2 million for land purchase. She said that should the City not be successful in obtaining a matching grant, the City would need to look at a \$5.4 million capital budget to discuss library options.

Mayor Pro Tempore/Agency Member Carr noted that staff indicates that within the library budget number, it included things such as drainage. He asked if these costs could be paid from sewer and water funds or could these costs be covered by impact funds collected?

Director of Public Works Ashcraft informed the City Council/Agency Commission that impact fees are to be used to pay for the regional backbone system, noting that storm drain needs are just for this site. The City would be required to install the system at a cost but would not need to pay the impact fee on top of these fees. He was not aware of any other funds that can be used to pay for these costs other than the use of storm drain impact fees.

City Manager/Executive Director Tewes indicated that should the City build the \$17 million project and the City receive full proposition 14 funding, the RDA would have to allocate approximately \$7 million and would include the cost to purchase land from the City.

Sports and Aquatic Center

Recreation Manager Spier indicated that the City Council/Agency Commission received a presentation from Sports Collaborative who came up with a phasing design plan. The City would be looking at an overall budget cost of approximately \$31.2 million with an additional \$1 million of infrastructure for a total project cost of \$32.2 million. This amount does not include land costs, thus the \$42 million. She addressed the flexibility in numbers, breaking down the numbers for all phases. She addressed the operating models, noting that the original study indicated that the Phase I leisure pool would fund the 50-meter pool. Regarding the operation and maintenance cost, she said that these are conceptual numbers (\$4,000 to \$6,000/acre each year at a total of \$230,000 to maintain the facility). She said that staff would need to address revenue generations (e.g., concessions, tournaments, special events, etc.).

Council/Agency Member Sellers said that when the City Council/Agency Commission received a presentation from Sports Collaborative last week, they pointed out that they anticipated that the \$32 million would be low, noting that there were 8 phases without a knowledge of timeline. If the project was not phased in, there would be a cost savings of approximately \$4-\$5 million. He felt that this was a financial factor. He said that of all projects being considered, this project affords the greatest opportunity for a public/private partnership.

Council/Agency Member Tate sees these as two separate projects, noting that they have been presented as one.

Ms. Spier said that staff looked at the overall budget and how the City could combine some of the features, looking at what goes hand in hand. She felt that it would work well to have the aquatics complex with the sports complex as there would be shared amenities such as shared parking. She indicated that shared facilities can be considered as one stop shopping for recreational uses.

Council/Agency Member Tate said that you could leave one of the sites as dirt to be used to park 800 cars for a long time.

Indoor Recreation Facility

Recreation Manager Spier informed the City Council/Agency Commission that the Parks and Recreation Commission met last night and addressed the indoor recreation center. Staff requested that Parks and Recreation focus on the capital dollars to meet the community needs. She indicated that staff started out with three models: 2 city models and the YMCA model. She addressed the components of the two City models, including the funding required for each model. She indicated that the YMCA presented their model which would accommodate their programming and operating costs. The YMCA indicates that they can operate the center at no cost to the city. She said that the City Council has indicated that the \$7.7 million budget is limiting the City in terms of the programming elements and that the City Council requested that staff revisit this issue. Staff went back and looked at a revised program model consisting of 24,938 square feet. She said that this

model serves the basics for the gym, senior and youth needs. She said that this model would require a 60% subsidy. She stated that the expanded model is approximately 50,816 square feet and includes an indoor pool. She indicated that staff is not requesting that the City Council/Agency Commission select a model, but trying to convey the programming spaces that it would get from the capital cost dollars for each model (YMCA - \$18.1 million; expanded model \$20.8 million; full service \$25.4 million). She also addressed the operating costs.

Mayor/Chairman Kennedy excused himself from the meeting.

Water and Sewer

Director of Public Works Ashcraft indicated that the RDA plan amendment tentatively earmarked \$20 million for water and sewer, noting that the City has not allocated any funding to date. Staff is requesting Council/Agency Commission consideration of allocating \$5 million for the installation of new water mains; \$4.5 million for sewer; and \$3.4 million for storm drains for West Little Llagas Creek. He addressed the master plan for the water, sewer and storm drain collection systems. He said that other revenue sources would be: impact fees, increased rates, revenue bonds, or the use of the fund balance.

City Manager/Executive Director Tewes informed the City Council/Agency Commission that improving storm drains in the project area is an eligible RDA expense and that it has been identified in the plan as an area where the City can spend money.

Street Improvements

Director of Public Works Ashcraft stated that \$20 million has been earmarked from the Plan Amendment, noting that \$3.2 million has been spent. He said that \$12 million has been identified in the five-year plan, most of it going toward Butterfield Boulevard. Staff is recommending another \$1 million funding next year in order to finish the Monterey overlay and another \$4.5 million out several years (2006-2007) in order to extend Butterfield south from Tennant Avenue to Watsonville Road.

Economic Development

Director of Business Assistance and Housing Services Toy stated that under the Plan Amendment, \$15 million was ear marked for economic development activities. Of this \$15 million, the City has spent or committed \$8.1 million that has been used for the Morgan Hill court house, loan for the old Morgan Hill School, facade grants, contract with the Chamber of Commerce, assistance to the Charter School, and the Downtown Management Fund. He said that there are approximately \$6.5 million remaining for economic development that can be used for contract(s) with the Chamber of Commerce, historic preservation, moving the Acton House to the Museum site, facade grants, or

other programs such as the small business fee referral program.

City Manager/Executive Director Tewes displayed a chart that summarized all of the projects adopted in the CIP and included decisions made over the past couple of months. The chart shows that for Public Facilities, the Plan suggests that \$47.7 million will be spent, noting that the City is already at \$52.3 million in this category. The Plan shows that the City would spend \$20 million for sewer and water, noting that most of this has yet to be spent. He distributed the results of how the Agency allocated the \$147 million, noting that this is a working recommended allocation exercise. He said that the greatest variance appears to be in the amount allocated for sports and aquatics, library, and indoor recreation.

In response to Mayor Pro Tempore/Agency Member Carr's question, City Manager/Executive Director Tewes indicated that development impact fees are collected to construct new streets. For the extension of Butterfield south of Tennant, staff is recommending that half of the costs be paid from development impact fees and half from RDA funds. In the utility areas, he said that there are three potential funding sources: 1) development impact fees; 2) rate payers; and 3) RDA funds. He said that there are other funding sources that could be used to pay for some of these projects such as the General Fund.

Community Center

Mayor Pro Tempore/Agency Member Carr recommended allocating extra dollars to the Community Center to accommodate public art.

Council Member/Vice-chairwoman Chang recommended \$8 million be earmarked for the community center to pay for extras and not for the overrun of the facility (operating and maintenance costs).

Action: *It was the consensus of the City Council/Agency Commission **to allocate** \$8 million for the community center.*

Community Playhouse

Mayor Pro Tempore/Agency Member Carr stated that he allocated extra money for the playhouse because there were some items that were not included in the budget (e.g., lighting, sound equipment, outdoor signage, brick work, enhanced landscape/paving, etc.).

Council/Agency Member Tate supported allocating \$2.5 million for this project

Council/Agency Member Sellers shared Council Members Carr and Tate's interest in providing the additional items. However, in reviewing the list of projects, he felt that the community playhouse

would be an opportunity to solicit private donations/contributions.

Action: *It was the consensus of the Agency Commission **to allocate** \$2.5 for the community playhouse.*

Council Member/Vice-chairwoman Chang recommended that the Agency Commission state reasons for recommending budget adjustments, as it was her belief that numbers would change such as street improvements, flood control, etc.

Council/Agency Member Tate indicated that with regards to the library, he went straight with what was presented as being the need. He felt that this project was short \$1 million. He recommended that \$7 million be reserved for the library.

Council Member/Vice-chairwoman Chang stated that she supports the \$7 million figure, but that she wanted to see the overall budgetary needs for all projects before she committed to a number. She indicated that the City Council/Agency Commission felt that \$5 million was the budget amount for the library.

City Manager/Executive Director Tewes said that \$5 million would be the minimum budget for a \$14 million project and that \$7 million would be needed for a \$17 million project, noting that staff would be returning with the \$17 million library project next week.

Mayor Pro Tempore/Agency Member Carr noted that the \$7 million budget includes \$1.2 million for property acquisition. Should the City decide not to charge the RDA for the property, he noted that this \$7 million cost could be lowered.

Council Member/Vice-chairwoman Chang indicated that eliminating the \$1.2 million land acquisition cost would result in less funding for the construction of a new police station, increasing the cost for the police station.

Council/Agency Member Sellers felt that the library affords the opportunity for public art.

Action: *It was the consensus to tentatively reserve \$7 million for the library.*

Sports & Aquatic Center

City Manager/Executive Director Tewes said that \$9 million is required to pay for the land and that it would cost \$8 million to construct the first phases of the pool.

Council Member/Vice-chairwoman Chang indicated that she would agree to budget \$17 million instead of \$18 million for this project.

Council/Agency Member Tate said that he proposed \$9 million for land acquisition, \$8 million for Phase I of the aquatic center and \$5 million for a quasi-sports complex. He stated that he would agree to change his number to \$22 million versus \$25 million.

Mayor Pro Tempore/Agency Member Carr said that he would support a \$17 million budget because the aquatic center portion of the project is a priority for him, noting that there is already a recreational use taking place on the other part of the field.

Council/Agency Member Sellers said that previous owners of the soccer complex would be more interested in managing the facility to allow further use of the fields.

Council Member/Vice-chairwoman Chang stated that she was hoping that, should the City build the aquatic center soon, the project would not necessitate an \$8 million allocation. She felt that the City did a good job in making sure that there is not an overrun on the project.

Council Member/Vice-chairwoman Chang recommended that the Agency Commission look at all the things that it wants to do and all the projects that it wants to talk about. She expressed concern with the remainder of the projects, noting that some projects are being reduced in terms of budget. She felt that the City may need to look at a different plan amendment in order to complete the projects, as she did not believe that the \$147 million would be enough to build all projects.

Council/Agency Member Tate stated that he would like to get all of the projects started because the ballot measure approved by the voters committed to the listed projects. He felt that the City Council/Agency Commission needs to make a commitment to deliver a portion of each of the projects.

Mayor Pro Tempore/Agency Member Carr said that there is a good argument in making sure that the City reviews and approves well designed projects. However, the question is which one project would not be completed in order to fund the other projects?

Council Member/Vice-chairwoman Chang felt that the Agency spent a lot of money for the indoor recreation center and the sports/aquatic center. She noted that these two projects together would result in a minimum budget of approximately \$35 million. She said that three of the projects out of 8 categories were originally budgeted at \$42 million, noting that this is 80% of the total money originally allocated.

Council Member/Vice-chairwoman Chang said that she took out \$16 million from sewer and water and contributed these funds toward the community center.

Mayor Pro Tempore/Agency Member Carr stated that he wants to keep costs down to \$17 million for the sports and aquatic center and move forward with the aquatic center.

Council/Agency Member Sellers said that he was not comfortable budgeting less than \$20 million because he was not even sure that \$20 million would get the Council where it needs to be.

Council/Agency Member Tate felt that \$20 million would allow the start up of the aquatic center and some work to utilize the fields.

City Manager/Executive Director Tewes stated that should the City Council/Agency Commission wish to proceed with the competition pool, recreation pool and a small pool house, the aquatic center would cost approximately \$8 million. For \$2+ million, the City could incorporate some level of improvements to the fields. Therefore, totaling the \$8 million plus \$2 million plus the \$10 million that the City is already into, the City Council would need to allocate \$20 million to proceed with a basic pool/sports complex.

Action: *It was the consensus of the Council/Agency Commission to budget \$20 million, and that it would reevaluate this figure.*

Indoor Recreation Center

City Manager/Executive Director Tewes said that there is \$5.5 million in land costs. He indicated that the Parks and Recreation Commission is recommending an additional \$18.5 million in construction costs for a total budget of \$24 million. He noted that there was a range of \$7.7 million to \$25 million for an indoor recreation center.

Parks and Recreation Commissioner Page informed the City Council/Agency Commission that the Parks and Recreation Commission recommendation is a configuration such that the City would not be required to subsidize the project. If the City wants to go with an \$11 million construction cost, he indicated that the City would need to subsidize the project for \$360,000 per year. Should the City build a recreation center, the City should budget \$24 million in order to avoid subsidy problems.

City Manager/Executive Director Tewes informed the City Council/Agency Commission that staff is not requesting an operating cost decision to be made this evening. He said that the following three variables vary for each of the models: 1) capital cost, 2) operating costs, and 3) the extent to which the community's recreation needs are being met.

Mayor Pro Tempore/Agency Member Carr felt that at a bare bone minimum, \$24 million needs to be allocated for this project in order to achieve cost recovery. He recommended that the Council/Agency Commission revisit this project to see if it wants to move forward with the project.

Council/Agency Member Tate stated that full cost recovery is important.

Action: *It was the consensus to allocate \$24 million, but that this budget would be revisited.*

Soccer complex

Council/Agency Member Sellers stated that if in fact the City is not moving ahead as quickly on the new sports complex, the City should negotiate with the CYSA for the use of the existing fields, resulting in a \$1 million cost savings.

Mayor Pro Tempore/Agency Member Carr stated that he was not able to get to the full cost to build the entire sports complex. Therefore, he felt that there was a modified form to the existing use that would include community involvement.

Council/Agency Member Tate stated that he would like to pursue the altered use in order to get more residents onto the fields.

Council/Agency Member Sellers said that the city has a strong interest in seeing community uses. He said that the CYSA has an opportunity to use an existing facility in its current condition. If this is the case, he was not sure if it was necessary to spend \$1 million to help CYSA.

Mayor Pro Tempore/Agency Member Carr said that the City is going through a process at this time in order to allow greater control over sports fields in town. He said that the School District has a great interest in who uses the fields and that they would be willing to allow the City to reserve fields. This would give the City the opportunity to think about all of the facilities available in the community to provide the greatest access for the City's youth. He said that he would like to place a \$0 dollar amount under this project but keep it as a line item so that the City can continue its conversation. If this becomes a deal breaker for the Sobrato site, the City can reprogram it and find some funding.

City Manager/Executive Director Tewes said that the current regional soccer complex could not be a co-tenant with the City's sports fields for two reasons: 1) CYSA uses the entire facility on Saturdays, and 2) the other six days of the week, CYSA does not want anyone else to use the fields.

Council Member/Vice-chairwoman Chang stated that she saved her money under this category. She felt that it would be better to place the \$2 million in a sports and aquatic center, constructing a temporary facility. The City can help the CYSA get their soccer complex as soon as possible elsewhere, retaining the \$1 million for the site.

Action: *It was the consensus to return to this item.*

Sewer and Water

Action: *It was the consensus to allocate \$9 million.*

Flood Control

Director of Public Works Ashcraft said that the City committed in the Five Year CIP \$8.2 million. He is asking for an additional \$3.4 million for a total of \$11.6 million.

City Manager/Executive Director Tewes stated that this is an area where there are no other funding sources. He stated that development impact fees can be used to pay for new users. He said that there were two sources of funding: developers or Redevelopment Agency funds.

Council/Agency Member Sellers expressed frustration as flood control should have been built years ago.

Mayor Pro Tempore/Agency Member Carr said that this was an economic development issue for him. He said that where the City would be making up the money would be on the backs of new users. Individuals looking at Morgan Hill for business development and economic development purposes would be looking at the cost of flood control to relocate in Morgan Hill.

Council Member/Vice-chairwoman Chang noted that the city did not experience a true flood this year.

Mr. Ashcraft said that there are 1,100 homes that have to pay flood insurance because their homes are located in the flood zone. What will take these homes out the flood zone is the PL566. He said that it is hoped that this project would be completed in 6-7 years. In terms of flooding, the city experienced bad flooding in 1995 (25-year storm). In 1996, an RV park flooded, and the flooding problem was solved by the property owner. He said that approximately \$4 million has been included in the CIP to help the flood control district and to help pay for the \$30 million project. The \$3.4 million being requested assures that all the local drains are built to connect to the PL566.

Mayor Pro Tempore/Agency Member Carr said that this is not an area that he would be comfortable lowering significantly and recommended a budget of \$10 million.

Council/Agency Member Sellers recommended a budget of \$8 million for the PL566. Council Member/Vice-chairwoman Chang concurred with an \$8 million budget.

Action: *It was the consensus to return to this item to identify a budget amount.*

Street Improvements

Director of Public Works Ashcraft indicated that this is a category that other funds can be used such as impact fees, grants and the VTA 2020 plan for local projects (50% match). He said that the other half to pay for the project can come from developer impact fees or VTA 2020 plan.

Council/Agency Member Sellers recommended a \$15 million budget.

City Manager/Executive Director Tewes said that the city has to establish development impact fees at a level that would raise this amount of money.

Action: *It was the consensus to tentatively allocate \$15 million, returning for further review.*

Economic Development

Council/Agency Member Sellers supported allocating \$13-\$15 million for economic development.

Council/Agency Member Tate supported a \$15 million allocation.

Mayor Pro Tempore/Agency Member Carr supported a \$15 million allocation. He said that he would like to see additional funds allocated for economic development.

Housing

Mayor Pro Tempore/Agency Member Carr said the Council/Agency Commission spent a lot of time at the retreat putting together a housing action plan that staff would be working on and returning to the City Council/Agency Commission. He said that at \$38 million, it places the City at approximately 25% which is what the Housing Update Committee recommended.

Mayor Pro Tempore/Agency Member Carr identified the tentative budget amounts as follows: Community Center - \$8 million; Playhouse - \$2.5 million; Library - \$7 million; sports & aquatics center - \$20 million; community indoor recreation center - \$24 million; regional soccer complex - \$1 million; Sewer & Water - \$9 million; Flood Control - \$10 million; Street Improvements - \$15 million; Economic Development - \$15 million; and Housing - \$31 million.

City Manger Tewes informed the City Council/Agency Commission that the first rounds of budget allocation results in a \$7.5 million overrun.

Council/Agency Member Sellers stated that the more the City gets away from the purpose of the Redevelopment Agency, the more uncomfortable he gets. He felt that the City needs to look at these costs and asked if it wants to continue subsidizing them with RDA funds. He felt that this is an area

that could be reduced and recommended reducing this category to \$5 million.

Mayor Pro Tempore/Agency Member Carr agreed with the idea of cost recovery. He asked if the City is subsidizing sewer costs for the residents? He noted that bonds were paid down in order to lower costs.

Director of Public Works Ashcraft responded that at this time, the city is not subsidizing sewer costs. He said that RDA funds have not been applied toward water or sewer but that staff is recommending RDA funding. Of the \$9.5 million being requested, \$4 million is for water and \$5 million for sewer, stating that sewer costs are for new development. This would result in lower impact fees for new development. If approved, the \$4 million for water would be used to avoid raising rates 3-4 years out. He stated that once the master plans, AB1600 study, and utility rate study are completed, the City Council/Agency Commission would have information before it adopts next year's budget. This information would allow the Council/Agency Commission to see the big picture in terms of what is needed several years out. He indicated that there are 11,000 meters, resulting in 11,000 households paying bills. He informed the City Council that the \$9 million does not include future expansion costs for the sewer plant. He clarified that the \$4.5 million is to be used for the installation of a trunk sewer to get the wastewater from new development to the treatment plant. The \$5 million proposed for water would be used for mains that are needed to move the water from the east side to the west side of the city.

Council/Agency Member Tate said that one of the items identified as part of Measure C was improving the city's water, sewer, and street systems and to pay off a portion of the existing water and sewer system debt. Therefore, he felt that the city needs to provide some funding.

Council Member/Vice-chairwoman Chang said that she sees street improvements, flood control, sewer/water and economic development as the intent of redevelopment. She noted that community facilities were added in so that they can be enjoyed by the community. She noted that at this point, the City has cut street improvements by \$5 million, flood control reduced by 40% and water/sewer by 50% from where it used to be. She stated that she was uncomfortable reducing this amount further. She said that she may have a problem allocating \$24 million for the indoor recreation center.

Council/Agency Member Sellers recommended that sewer and water be reduced to \$4-\$5 million. He said that if the city does not grow, trunk lines would not be needed, therefore an area to reduce RDA funds. He did not believe that it made sense to use RDA funds to support improvements for growth. If this area was reduced by \$4.5 million, the City would still have \$4.5 million to install water improvements.

Council/Agency Member Tate said that he was looking at the sports and aquatics and the community indoor recreation center combined for a total of \$44 million.

Mayor/Chairman Kennedy entered and was seated.

Council/Agency Member Sellers said that he would be willing to go back to the community to state that it would cost \$5 million more for utilities if the studies so indicate. He felt that using RDA funds to pay sewer for new users was moving away from the core reason for redevelopment. He did not believe that it made sense to subsidize sewer for new users with RDA funds. He recommended that sewer and water be reduced to \$5 million.

Mayor Pro Tempore/Agency Member Carr indicated that he understood Council/Agency Member Sellers comments but that he has concerns with today's economy. He said that he sees the \$4.5 million as an economic development investment. He felt that funding in this category would send a message that this is an area where the city would help individuals/businesses come to Morgan Hill, hopefully generating more revenue for the General Fund.

Council/Agency Member Sellers said that investing money on public facilities such as the community center, library, playhouse, and an aquatic center would create a community where businesses would want to invest and people want to live. This is where he makes the connection between RDA funds and spending it on the public facilities.

Council Member/Vice-chairwoman Chang concurred that public facilities would have a positive impact. However, a question needs to be asked - who is the city building the facilities for? She felt that only 50% of Morgan Hill residents would be using the indoor recreation center facility. Therefore, she would like to use sewer funds to entice individuals to come to Morgan Hill and increase sales tax, benefitting the community as a whole.

Council/Agency Member Sellers did not believe that the models the city was looking at show that with the funding being spent on public facilities that only 50% of Morgan Hill residents would be using the facilities.

Council Member/Vice-chairwoman Chang noted that the CYSA would be moved out in order to construct a sports and aquatic center for the community. Therefore, this is inconsequential compared to the redevelopment money being spent.

Mayor Pro Tempore/Agency Member Carr asked if there were ways of using dollars that are within the redevelopment cap in aggressive investments that create more dollars to finish projects?

City Manager/Executive Director Tewes stated that once the City has spent the \$147 million dollar redevelopment cap, the RDA would be out of business. Therefore, it would not make a difference what the City invests in now, it would not generate additional redevelopment funds. However, to the extent that the purpose of redevelopment is to encourage private investment and reinvestment in the community that builds a tax base, the entire community would benefit from redevelopment

activity and generate resources in other funds. Therefore, the City can look at redevelopment as an investment whose dividends are paid to other funds, not to redevelopment.

Mayor/Chairman Kennedy asked if staff arrived at a time window when the trunk lines would be needed as the City is accumulating impact funds?

Director of Public Works Ashcraft stated that it would take two years to design the trunk lines. Therefore, the money is needed three years out. He informed the Council/Agency that the City has collected \$6-7 million in impact fees. He stated that \$22 million would be needed 5-10 years out for sewer treatment. He indicated that approximately \$5,000 per home is collected for sewer impact fees and felt that the \$5,000 user fee would increase substantially. He suggested that the \$4.5 million for the trunk sewer come out of the year 2004/05 funding year.

Mayor/Chairman Kennedy stated that the longer the City can delay the installation of the sewer trunk, the closer the city comes to collecting impact fees to pay the cost.

Mayor Pro Tempore/Agency Member Carr inquired if it would make sense to bond right of ways while interest rates are low and try to include the additional \$4.5 million within the bond?

Finance Director Dilles said that in general, you do not want to borrow money ahead of the time you want to spend it. He said that you try to borrow money shortly before you actually spend it as it is a more efficient use of bonding.

Director of Public Works Ashcraft informed the Council/Agency that \$20 million is bench marked 5-10 years out for sewer treatment plant capacity. He said that if growth continues to go as slow as it had the past twelve months, increased sewer capacity may not be needed until 2011-12. However, the trunk sewer is needed now and that \$8 million is needed three years from now.

Council/Agency Member Tate noted that the Council/Agency is \$7.5 million of the base \$135 million (5.5% over the base). He felt that there were some projects that can have lower allocation numbers. He said that he did not have a problem reducing the sewer and water number slightly but was not sure if he was willing to reduce it as much as recommended by Council/Agency Member Sellers. He noted that Mayor/Chairman Kennedy was the only one that recommended a \$24 million allocation to the community indoor recreation center and that the Council/Agency concurred with this allocation because this is the amount needed to operate the facility without a deficit.

Mayor/Chairman Kennedy said that several significant changes have occurred since the original RDA plan was put together. He noted that the state subvention funds have been paid to the Santa Clara Valley Water District. Therefore, the Water District has more funds available to perform flood control work. In addition, the PL566 project has been put back on track to proceed with engineering of the project. He felt that the City was getting more support from the state and federal government.

Therefore, the City could cut back some of the funds it was providing for flood control projects.

Council/Agency Member Sellers recommended that \$5 million can be reduced from flood control and \$2 million from sewer/water.

Mayor/Chairman Kennedy said that the City has to focus its efforts on keeping the PL566 project moving along. He recommended that aggressive budgets be set for the indoor recreation center and the sports aquatic center, cutting their costs by 5% each.

Council/Agency Member Sellers reiterated his recommendation that reductions be made to sewer and water and did not support reducing funds for the indoor recreation center or the sports/aquatic center.

Council/Agency Member Tate recommended that funds be reduced from sewer and water, indoor recreation center and the sports & aquatic center.

Council Member/Vice-chairwoman Chang recommended additional funding to economic development. She recommended that sewer/water be allocated \$7 million.

Mayor Pro Tempore/Agency Member Carr recommended that there be enough funds to install the new trunk sewer line.

Director of Public Works Ashcraft said that the trunk sewer line would need to be installed but the question is how it would be paid for. He said that the City can pay for its installation with the combination of RDA monies and existing fees or bond to be paid for with development fees. However, bonding would result in an increase of development fees and payment of an interest rate. He stated that he would be recommending the construction of the trunk sewer within three years.

Mayor Pro Tempore/Agency Member Carr stated that \$4.5 million to construct the trunk sewer line with RDA funds would be an economic development investment. If RDA monies are not used, the City would need to bond for its installation, resulting in the need to raise impact fees (negative economic development).

Council/Agency Member Sellers indicated that another alternative would be to increase sewer rates over a period of time to pay for the bond.

Council Member/Vice-chairwoman Chang recommended the installation of the sewer trunk line be placed under economic development. She said that real money would be needed to buy down water and sewer rates in order to attract large commercial development. She recommended that sewer and water remain at \$9 million and that 5% be cut from the aquatic and recreation centers.

Mayor/Chairman Kennedy recommended \$8.7 million be allocated to sewer and water.

Mayor Pro Tempore/Agency Member Carr recommended that funding for the community center, playhouse and library be left alone as they are already underway. He recommended that all other categories (seven) be reviewed with the exception of housing and apply Mayor/Chairman Kennedy's scenario of looking at each of them at a 95% budget. Staff to look at the 95% budget and advise the Council/Agency what it would mean to each of the project. Further, staff to investigate whether these additional dollars are to be made up in value engineering and/or public/private partnerships in order to get these projects down to a 95% budget. He said that the City may find that the little that it would save on the regional soccer complex is acceptable but that cuts to the aquatic center may not be acceptable.

Council Member/Vice-chairwoman Chang noted that a 3% reduction on the seven items would result in a reduction of \$2.5 million.

Mayor/Chairman Kennedy recommended that a 5% and 3% reduction across the board be looked at for the seven projects. He said that staff may find a better suggestion to present to the Council/Agency.

Mayor Pro Tempore/Agency Member Carr stated that the goal would be a 5% reduction across the board, determining what would make sense in each category.

Mayor/Chairman Kennedy stated that he would like to see the sports and aquatic center moved up in priority because the demand is high.

Council/Agency Member Tate recommended that the sports and aquatic center be moved up, if possible.

Mayor Pro Tempore/Agency Member Carr indicated that he would support moving up the sports and aquatic center. Regarding moving the indoor recreation center up in terms of priority, he noted that there is still a lot of discussion that needs to take place.

Action: *It was the consensus to be aggressive on the construction of the sports and aquatic center.*

Mayor/Chairman Kennedy said that the phases of the sports and aquatic center need to be discussed. He felt that phase I would build two pools, enough to get it started at a cost of \$8 million.

Council/Agency Member Sellers did not believe that it made fiscal sense to make cuts across the board as being discussed. He did not believe that it made sense to cut economic development. He felt that cuts should be made to sewer and water as he did not believe that the City needs to be

subsidizing these costs. He said that it made sense to look at making some cuts to the sports and aquatic center and the indoor recreation center. He did not believe that it made sense to spend money on a regional soccer complex but recommended that it be kept as a place holder. He felt that there were some places that the City can cut, as there are other resources that can be identified and that there are some places that cuts should not be made. He wanted to make sure that the City/Agency is not doing itself, nor the community, a disservice by making cuts across the board.

Mayor/Chairman Kennedy did not believe that discussions were over, noting that at the next meeting, staff would be able to provide additional information in order to make decisions.

Council Member/Vice-chairwoman Chang asked if the Council/Agency would address the priorities for flood control, street improvements, sewer and/or water?

City Manager/Executive Director Tewes stated that the Council/Agency reviews priorities as part of the CIP review.

ADJOURNMENT

There being no further business, Mayor/Chairman Kennedy adjourned the meeting at 9:14 p.m.

MINUTES RECORDED AND PREPARED BY

IRMA TORREZ, City Clerk/Agency Secretary